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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-8075

February 17, 1987

CHAIRMAN'S OFFICE

RECEIVED

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SEC. & EXCH. COMM.

The Honorable John Shad  
Chairman  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549

Dear Chairman Shad:

With the arrest of four top Wall Street financial executives last week, it is becoming clearer by the day that risk arbitrageurs are systematically involved in corporate takeover abuses. While the conventional wisdom explains the growth in the risk arbitrage industry as a logical consequence of the growth in corporate takeovers, the direction of causation may actually run the other way. That is, the growth in corporate takeovers may in no small part be due to the efforts of risk arbitrageurs to launch takeover efforts in order to generate more profit opportunities. Certainly the events of the last week give stronger credence to this counter-view.

Whether or not this counter-view is correct, it is a fact that last year almost one major corporation a week was "put into play". And at the heart of the hostile corporate takeover process has been the risk arbitrageur. Three out of the four individuals arrested last week were heads of arbitrage departments: Robert Freeman, the head of the arbitrage department at Goldman Sachs; Richard Wigton, the head of arbitrage at Kidder Peabody; and Timothy L. Tabor, until recently head of arbitrage at Merrill Lynch & Co. Other implicated arbitrageurs include Ivan F. Boesky, as well as Andrew D. Saloman and Robert Salisbury, two young analysts working respectively in the arbitrage departments of the investment-banking firms Marcus Schloss & Company and Drexel Burnham Lambert. It is interesting to note that in the instance of the latter two they both have indicated that they passed information along to their firms which allegedly traded on it, even though according to the two analysts, the firms had knowledge it was non-public information.

The Senate Banking Committee, as you know, will be continuing its hearings on the need for reform of the procedures, practices and financing of hostile takeovers in March and April. One of the many issues that we are examining is whether or not investment bankers and arbitrageurs promote raids and hostile corporate takeovers. I am interested, for instance, in whether or not

investment bankers and Wall Street have now become so reliant on these deals -- and activity related to them -- that their current prosperity may be dependent on them.


Last week, by letter dated February 12, 1987, I asked the Director of the Library of Congress to have the Congressional Research Service of the Library prepare for the Committee a study of the fees investment bankers have received resulting from a number of recent hostile takeovers. At some point I may be asking for information on the percentage of certain firm's revenues and profits which result from this activity.

The purpose of this letter to the Commission is to get more information on the risk arbitrage business. Specifically, I am interested in the following:

1. A list of all of the major risk arbitrageurs and their organizational affiliations, i.e. whether they are an independent operation or associated with an investment banking firm or other financial institution or institutional investor;
2. The annual volume of activity and profit levels for these arbitrageurs over the last three years;
3. For each arbitrageur, the names of its five top officers and the total compensation they received over the last three years;
4. Your best estimate of the portion of stock market profits arising from corporate takeovers over the last three years that has accrued to risk arbitrageurs;
5. A description of the existing surveillance mechanisms and regulatory apparatus used to monitor risk arbitrage operations at the SEC, at the self-regulatory organizations, and within the individual organizations conducting risk arbitrage operations;
6. An analysis of the legal liability, if any, incurred by an organization for failing to supervise adequately the risk arbitrage operations conducted under its auspices.

I would appreciate a response to these inquiries by April 1, 1987.

Sincerely,



William Proxmire  
Chairman